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Rise In Municipal Housing Delinquencies Hasn't Affected Loan Resolution Ratings

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The U.S. housing market downturn has severely affected the economy and the ability of some borrowers to keep up with their loan payments in the past two years. However, there have been no negative rating actions to date on the 33 state Housing Finance Agency (HFA) single-family whole loan resolutions rated by Standard & Poor's Ratings Services despite rising delinquencies and foreclosures. While we expect the rates of severely delinquent and foreclosed loans for HFAs to continue to rise in the current economic environment, we believe most loans should continue to perform well given the strong underwriting and full documentation that distinguish HFA loans.

Over the past year, all but five HFA bond programs have seen a rise in their delinquency and foreclosure rates. Still, most of the loans in the indentures remain of high quality, and the resolutions have strong reserve levels. Standard & Poor's will continue to closely monitor the delinquency rates and provide updates of any significant changes or trends in performance.

Delinquencies Not Critical

The average delinquency rate (60 days or more delinquent or in foreclosure) for loans within the 33 HFA whole loan bond programs was 3.32% on June 30, 2008, up from 2.81% a year earlier. To put these figures in perspective, Standard & Poor's reserve assumptions include sufficiency to withstand a foreclosure rate of 32% at the 'AA' rating for a pool of loans in a large state. Given that benchmark, even the highest delinquency rates of the primary single-family resolutions of Georgia Housing and Finance Authority (8.67%) and Michigan State Housing Development Authority (8.38%) do not present a threat to the ratings of these programs. Georgia HFA has a rating of 'AAA' based partly on our assessment of a portfolio of mostly loans insured by the Federal Housing Administration. These loans have increased substantially as a proportion of total loans to 74% in second quarter of this year, from 45% in 2006's second quarter. The Michigan authority has a rating of 'AA+' based on (among other rating factors) a very high asset-to-liability parity of 118%.

With respect to the trend over the last two years of loans at least 60 days delinquent or in foreclosure, among the 33 resolutions, nine show a clear upward trend, four show a slightly upward trend, 17 show an even trend, and three show a downward trend. The most notable increase is at California Housing Finance Agency, which had 3.63% of its loans delinquent in the second quarter of 2008, compared with 1.8% in the year-earlier second quarter. However, California's 3.63% rate is the 13th-highest among the 33 bond programs, and is just 0.31 point higher than loans in the average resolution.

Foreclosure rates for loans in the bond programs are significantly lower than delinquency rates. The average loan portfolio included 1.15% of all loans in foreclosure in June 2008, compared with 0.77% in 2007. The highest foreclosure rate was for Minnesota at 2.66% in June 2008, and the loans in the 27 HFA resolutions had foreclosure rates less than 2%. This compares with a foreclosure rate of less than 2% for 30 resolutions a year earlier.

Loan Mix Affects Delinquency Rate

Standard & Poor's also calculated the change in the delinquency rates between the second quarters of 2008 and 2007. We then calculated the change in the delinquency rates for all loans in the states as reported by the Mortgage Bankers Association, based on a similar portfolio mix, and compared the change of the HFA resolution to the change in the state rate.

The different composition of the loan portfolio explains why bond programs within a state are compared to different state performances. For instance, a loan composition based on the loan mix of the California Housing Finance Agency, which has 64% conventionally insured loans, is very different from a portfolio that resembles that of the California Department of Veterans Affairs, with more than 88% of the loans either conventionally insured or uninsured. This causes the change in the delinquency rates in the state of similarly weighted loan portfolios to compute to 2.2% for California Housing Finance Agency, and to 2.86% for California Department of Veterans Affairs.

Most resolutions did not show as great an increase in delinquencies and foreclosures when compared to changes in the respective rates for their state. These bond programs are listed in table 1. Notably, loans for five state HFA resolutions lowered their delinquency rates in the 12 months though the second quarter of 2008, while the overall performance of statewide loans eroded. Fifteen agencies performed worse than their state cohorts (see table 2). The tables are ranked in order of relative superior performance by the loans in the HFA bond programs compared to the states. For instance, Florida Housing Finance Corp.'s resolution has loans that experienced a 1.09-percentage-point increase in its delinquency rate in the second quarter of 2008 from a year earlier, but the state with a similar weighted loan group had a 3.17-percentage-point increase. This gap of 2.08 percentage points was the highest even though Florida Housing Finance Corp. had the fifth-highest delinquency rate among the HFAs.

The tables do not include Utah's 2007 single-family mortgage bonds resolution, for which data first became available only in the third quarter of 2007. This program is Utah's active resolution, which will be included in our analysis when the loans have a longer history. The Utah loans are the best performers among all rated programs, with a delinquency rate of 0.54% in the second quarter of 2008 and no loans in foreclosure.

Table 1

HFAs That Compare Favorably To States In Change In Loan Delinquency Rate						
Housing Finance Agency Indenture	HFA Delinquency Rate		Year-Over-Year Change (Percentage point)	Year-Over-Year Change In States' Delinquency Rates (Percentage point)*	Difference Between Changes In HFA And State Delinquency Rates (Percentage point)	
	June 30, 2008 (%)	June 30, 2007 (%)				
Florida Housing Finance Corp.-Homeowner Mortgage Revenue Bonds	5.44	4.35	1.09	3.17	(2.08)	
California Department of Veterans Affairs	2.14	1.34	0.80	2.86	(2.06)	
New Jersey Housing and Mortgage Finance Agency-Single-Family Housing Revenue Bonds	3.46	4.06	(0.60)	1.14	(1.74)	
Kentucky Housing Corp.-Housing Revenue Bonds	5.33	5.86	(0.53)	0.46	(0.99)	

Table 1

HFAs That Compare Favorably To States In Change In Loan Delinquency Rate (cont.)					
Michigan State Housing Development Authority-Single-Family Mortgage Revenue Bonds	8.38	8.64	(0.26)	0.70	(0.96)
Wisconsin Housing and Economic Development Authority-1987 Homeownership Revenue Bonds	0.70	0.56	0.14	1.04	(0.90)
Wisconsin Housing and Economic Development Authority-1988 Homeownership Revenue Bonds	0.75	0.56	0.19	1.04	(0.85)
West Virginia Housing Development Fund-Housing Finance Bonds	2.82	2.52	0.30	1.05	(0.75)
Rhode Island Housing-Homeownership Opportunity Bonds	1.39	0.72	0.67	1.37	(0.70)
Maine Housing-Mortgage Purchase Program	4.30	3.65	0.65	1.26	(0.61)
Alaska Housing Finance Corp.-Veterans Mortgage Program Bonds	0.64	0.57	0.07	0.64	(0.57)
Tennessee Housing Development Agency-Homeownership Program Bonds	5.25	5.69	(0.44)	0.03	(0.47)
Vermont Housing Finance Agency-Single-Family Housing Bonds	2.18	1.96	0.22	0.69	(0.47)
California Housing Finance Agency-Home Mortgage Revenue Bonds	3.63	1.80	1.83	2.20	(0.37)
Mass Housing-Single-Family Housing Revenue Bonds	1.61	0.65	0.96	1.33	(0.37)
Alaska Housing Finance Corporation-Mortgage Revenue Bonds	2.32	2.16	0.16	0.52	(0.36)
Montana Board of Housing- Single-Family Mortgage Bonds (1997 indenture)	1.27	1.38	(0.11)	0.13	(0.24)
Virginia Housing Development Authority-Commonwealth Mortgage Bonds	2.31	1.48	0.83	1.05	(0.22)
Pennsylvania Housing Finance Agency-Single-Family Mortgage Revenue Bonds	3.06	3.02	0.04	0.15	(0.11)
South Dakota Housing Development Authority-Homeownership Mortgage Bonds	1.46	1.44	0.02	0.12	(0.10)

Source: State HFAs, Mortgage Bankers Association. *State loan delinquencies are adjusted to represent the same proportion of loan types as the HFA loans.

Table 2

HFAs That Compare Unfavorably To States In Change In Loan Delinquency Rate					
Housing Finance Agency Indenture	HFA Delinquency Rate		Year-Over-Year Change (Percentage point)	Year-Over-Year Change In States' Delinquency Rates (Percentage point)*	Difference Between Changes In HFA And State Delinquency Rates (Percentage point)
	June 30, 2008 (%)	June 30, 2007 (%)			
Alaska Housing Finance Corp.-General Mortgage Revenue Bonds	1.72	1.19	0.53	0.52	0.01
Montana Board of Housing-Single-Family Program Bonds (1977 indenture)	1.31	1.12	0.19	0.18	0.01

Table 2

HFAs That Compare Unfavorably To States In Change In Loan Delinquency Rate(cont.)					
Minnesota Housing Finance Agency-Residential Housing Finance Bonds	4.58	3.44	1.14	1.05	0.09
Connecticut Housing Finance Authority-Housing Mortgage Finance Program Bonds	5.00	4.23	0.77	0.63	0.14
North Carolina Housing Finance Agency-Home Ownership Revenue Bonds	5.46	5.17	0.29	0.10	0.19
Utah Housing Corp.-Single-Family Mortgage Bonds (2000 Indenture)	3.48	3.24	0.24	(0.03)	0.27
Alaska Housing Finance Corp.-Home Mortgage Revenue Bonds	2.31	1.23	1.08	0.55	0.53
Wyoming Community Development Authority-Single-Family Mortgage Bonds (1978 indenture)	4.69	3.97	0.72	(0.02)	0.74
Colorado Housing and Finance Authority-Single-Family Mortgage Bonds	6.37	5.75	0.62	(0.26)	0.88
Illinois Housing Development Authority-Homeowner Mortgage Revenue Bonds	3.40	1.42	1.98	0.96	1.02
Wyoming Community Development Authority-Housing Revenue Bonds (1994 indenture)	4.98	3.87	1.11	0.08	1.03
Georgia Housing and Finance Authority-Single-Family Mortgage Bonds	8.67	3.02	5.65	3.32	2.33

Source: State HFAs, Mortgage Bankers Association. *State loan delinquencies are adjusted to represent the same proportion of loan types as the HFA loans.

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